



# Weekly Observatory

August, 7th, 2009

## Weekly Highlights (03<sup>rd</sup> – 07<sup>th</sup> August, 2009)

Inflation continues to recede in Latin America as economic activity remains weak despite some recent signs of recovery. In both Chile and Colombia prices dropped -0.4% and -0.04% in July, surprising the markets. In Peru inflation was also slightly below markets' expectations. Some data released this week reinforced the view that economic activity in the region is bottoming out: Brazilian industrial production expanded for the sixth month in a row; Chilean activity index displayed a solid m-o-m growth in June; Argentinean tax collection came out better than expected by the markets; and Mexican consumer confidence improved relative to previous months. In Peru the Central Bank's Board reduced the policy rate by 75bp (1.25%), a year-to-date decrease of 525bp.

### 1. Argentina

- July **tax collection** recorded a nominal growth of 10.2% (yoy), and 13.9% accumulated so far this year. With respect to previous months it was observed a better VAT collection (associated to a recovery on the import-VAT taxes and consumption-VAT), meanwhile a contraction was observed both in Income tax and in Export duties (the last one because of the decline during July of the prices of export products).

The collection of July was slightly above than market expectations, but in line with our annual estimation.

### 2. Brazil

- Industrial production grew by 0.2% m-o-m in June (seasonally adjusted). This was the sixth positive growth in a row. Despite this recovery (8% in comparison to December of 2008) industrial production is 10.9% below the level of June of 2008. However, this month's expansion was lower than expected by the market (0.4%) and the lowest in the year.
- The Real appreciated around 2% this week in spite of dollar purchases by the Central Bank. The IBOVESPA gained almost 3% this week and now accumulates a 50% appreciation in the year.

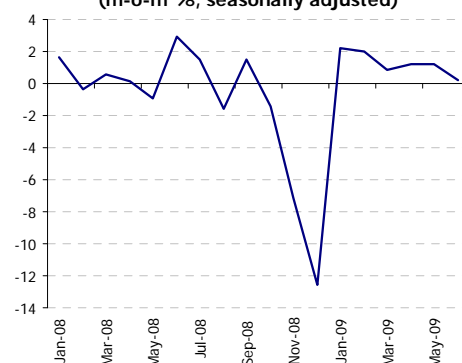
### 3. Chile

- The monthly index of economic activity (IMACEC) declined by 4% y-o-y last June. However the seasonally adjusted series showed a strong increase of 0.8% with respect to May, the first clear sign of recovery.
- Inflation dropped -0.4% during July, challenging market expectations of a decrease of only 0.1% for the month. With this, the CPI inflation in the last twelve months reached 0.3%, and -1.2% during the year.

ARGENTINA - TAX COLLECTION

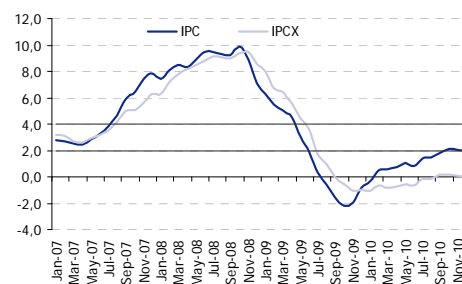
Main Taxes	Variation YoY to Jul-09		
	Last month	Last quarter	Year acum.
IVA	13,9%	7,9%	8,2%
Profits	-8,4%	2,6%	2,7%
Social security	45,7%	45,9%	53,6%
Exports Retentions	-20,9%	-2,1%	-6,1%
Bank deposit and loans	2,7%	5,2%	5,6%
<b>Total collection</b>	<b>10,2%</b>	<b>12,0%</b>	<b>13,9%</b>

Industrial Production  
(m-o-m %, seasonally adjusted)



Source: BCB

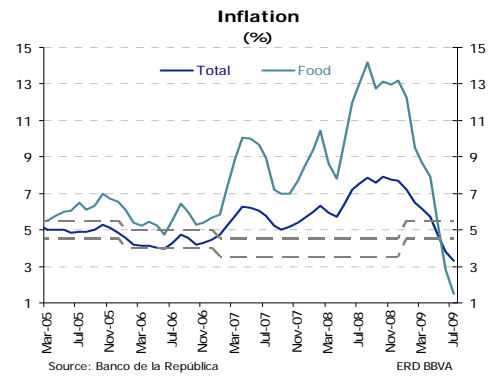
Inflation evolution  
(var. % y/y)



Source: BCCh y BBVA

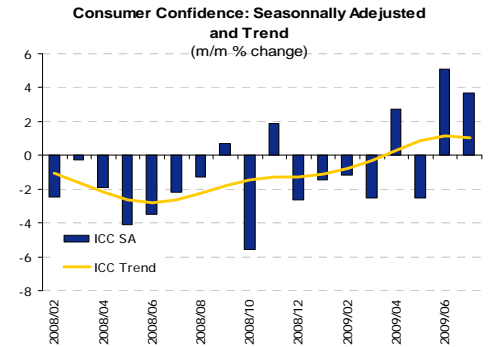
**4. Colombia**

- During June, urban unemployment rate reached 13%, compared to 11.7% for the same period in 2008. This result is mainly explained by a superior growth rate in total labour force (7.54%) than in employed population (5.9%).
- Inflation continued falling during July and experienced a monthly growth rate of -0.04%, which sets 12-month inflation rate at 3.28% and 2.18% year to date. This was mainly caused by food prices, which declined 0.54%. Inflation would be near its lowest expected level for the year



**5. Mexico**

- This week the Consumer Confidence index was published, it fell -3.3% on an annual basis. The contraction was caused by reductions in three of its five components, particularly the indicator about the possibility of currently buying durable goods which fell -16.7%. The CCI seasonally adjusted series grew 3.7% m/m thanks to an improvement in all its components specially the one about the expectations on the household economic situation a year from now which grew 6.5%, and the component on the possibility of buying durable goods that rose 6.0%. The monthly improvement on the CCI implies that consumers feel the recession has bottomed. Next week May's investment will be published, it will show further deterioration due to the Influenza pandemic.

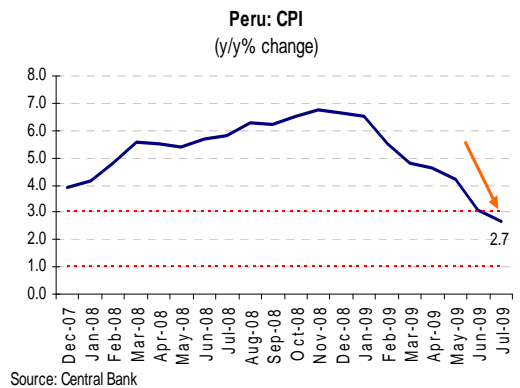


**6. Peru**

- Domestic Value Added Tax (VAT) revenues fell in July 3.8%/y/y in real terms. This figure includes revenues related to extraordinary payments made in July 2008 (comparison base). Excluding this effect, domestic VAT would have grown 1.7%/y/y (in 2T09, the average monthly growth rate was slightly above 4%/y/y in real terms).

- In the same month, the Consumer Price Index of Metropolitan Lima (CPI) increased 0.19%, in line with market consensus (0.2%). This result leaves year-on-year inflation at 2.7%, inside the Central Bank's inflation target range (2% ± 1pp), after 21 months out of it.

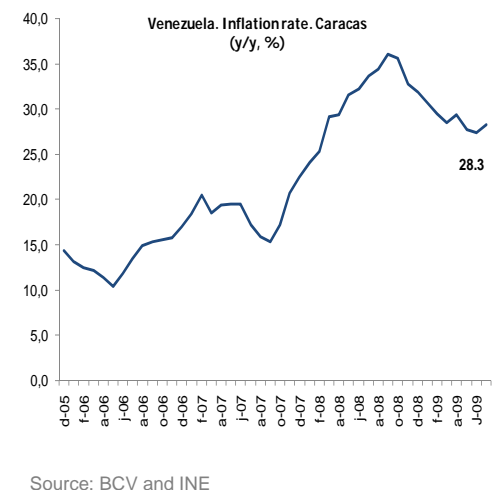
- Finally, in its monetary policy meeting on Thursday 6th, the Central Bank's Board reduced the policy rate by 75bp (1.25%), a YTD decrease of 525bp. According to the press release, this decision considers the sustained reduction of inflation (YTD 4pp decrease) and the continuing decline in expected inflation. For the future, the Central Bank sees no reason to move the policy rate from its current level, unless the inflation forecast and its determinants suffer important changes.



**7. Venezuela**

- Inflation accelerated somewhat in July. The inflation figure released by BCV and INE, on national basis, was 2.1% in July. On a y/y basis, inflation reached 26.2%, slightly higher than June's register (26.0%). Two factors drove inflation up: the adjustment in some administrated basic food prices and the acceleration of import product prices.

- The Superintendency of Banks eases banking risk-weighted asset standards. The risk weighting profile of government bond was reduced to 0%, earlier it was located between 20% and 50% according to maturity. Other assets risk weights were reduced from 100% to 50%, including residential mortgage credit, industrial credit and tourism loans (sectors subject to minimum growth rate requirements).



## The latest from markets

## Bond and Money markets

Market	End	Weekly Var.	Yearly Bp	Var.	Forecast. Dec 2009
<b>Argentina</b>					
7 day Central Bank rate	10,00	0	125		---
Badlar rate	13,13	-6,25	44		17,00
<b>Brazil</b>					
Official Rate	8,75	0	-425		8,50
Andima 1 year bond	9,27	-2	-543		---
<b>Chile</b>					
Official rate	0,50	0	-675		1,50
Swap CLP	0,55	-3	-730		---
10 year rate	5,54	-28	-198		---
<b>Colombia</b>					
Official Rate (BR)	4,50	0	-550		6,00
DTF	5,06	-18	-455		---
TES jul-2020	9,02	15	-339		---
<b>Mexico</b>					
Official Rate (fondeo)	4,50	0	-350		5,50
3 months rate	4,84	0	-338		5,47
10 years rate	8,18	4	-56		6,90
<b>Peru</b>					
Official Rate	1,3	<b>-75,0</b>	-500,0		
10 years*	6,0	4,0	-177,0		
<b>Venezuela</b>					
Overnight-interbank (daily)	11,0	169,0	901,0		5,0
CD 28d (official)	6,0	0,0	-800,0		6,0
DPF 90d	15,2	-11,0	-187,0		14,5

## Foreign exchange market

Appreciation of Latin American currencies after higher prices in commodity markets and the weakness of the US dollar.

Exchange Rate	End	Weekly Var. %	Yearly Var. %	Forecast. Dec 2009
<b>America</b>				
Argentina (peso-dollar)	3,83	-0,2	25,3	4,10
Brazil (Real-dollar)	1,84	-1,5	14,1	2,30
Colombia (Peso-dollar)	2008	-1,5	11,1	2543,00
Chile (Peso-dollar)	542	0,4	4,6	590,00
Mexico (Peso-dollar)	13,04	-1,4	28,7	13,40
Peru (New sol-dollar)	2,96	-0,9	3,4	3,30
Venezuela (Bolívar-dollar)	2147	0,0	0,0	2700,00
dollar-Euro	1,44	0,9	-4,5	1,25

## Emerging Spreads

Global aversion to risk fell and the inflow of capital in emerging regions helped produce general decreases in country risk among Latin American economies.

EMBI+ sovereign spreads	End	weekly chg. Bps	Annual chg bps
EMBI+	348	-16	70
EMBI + Latin America	380	-14	73
Argentina	887	-19	244
Brazil	238	-5	17
Colombia	240	-15	32
Chile*	134	-10	-44
Mexico	181	-21	24
Peru	220	-9	43
Venezuela	1024	-31	377
EMBI+ Asia	277	-13	20
EMBI+ Europe	320	-23	89

## Commodity Markets

Commodities prices increased this week as markets focused on the improvement of macroeconomic perspectives, equities expansion and dollar debility. The oil price rose more than 3% in spite of more news on inventories accumulation in United States.

Commodities	End	Weekly Var. %	Yearly Var. %	Forecast Dec 2009
Brent (\$/b)	74,6	4,0	-34,2	56,3
Gold (\$/onza)	961	0,7	12,2	875,0
Copper (c/lb)	273	5,2	-20,0	165,0
Soy (c/bush)	405	2,2	-5,5	370,0
Corn (c/bush)	116	-3,2	-37,1	350,0
Goldman-Sachs Index	471	-0,2	-35,5	---
CRB Index	421	-0,9	-19,8	---

## Stock Markets

Positive results in Latin American stock exchanges following the optimistic route of world stock exchanges after the new publication of strong corporate data.

Stock Exchange	End	Weekly Var. %	Yearly Var. %
<b>The Americas</b>			
Argentina (Merval)	1777	3,3	0,0
Brazil (Bovespa)	55755	1,81	-1,5
Colombia (General Index)	10438	1,0	16,9
Chile (IGPA)	15497	1,4	9,7
Mexico (IPC)	27802	2,8	2,5
Peru (Lima General)	13865	-1,6	9,0
Venezuela (IBC)	46097	0,9	17,5
<b>USA</b>			
S&P 500	997	1,0	-23,1
Nasdaq 100	1973	-0,3	-18,3
<b>Europe</b>			
Londres (FTSE)	4691	1,8	-14,5
EuroStoxx50	2319	1,2	-20,8
Ibex35	10776	-0,7	-8,7
Estambul-100	43528	2,1	6,3
<b>Asia</b>			
Nikkei	10412	0,5	-20,9
China	3261	-4,4	25,1

## The week ahead

Day	Country	Indicator	Period	Last/prev	Mkt Forecast	BBVA
<b>Monday</b>						
	Chile	Economic Expectations Survey	August			
	Perú	Commercial Balance	June	May: USD 634		
	Brasil	Car Sales (Anfavea)	July	300157		
<b>Tuesday</b>						
	México	Gross fixed investment	May	-17.8	-15.2	-11.5
<b>Wednesday</b>						
	Argentina	Consumer prices index	July	0,4% m/m		
	Argentina	Wholesale prices index	July	0,9% m/m		
	Argentina	Construction Index	July	1% m/m		
	Chile	Monetary Policy Meeting previous report	August			
	Colombia	Imports	June	-27,2%		
	Colombia	Commercial Balance	June	417		
<b>Thursday</b>						
	Chile	Monetary Policy Meeting	August			
	Venezuela	GDP	II Trim	I-Trim : 0,3%		
	Brasil	Retail sales (YoY)	June	4,00%	6,50%	
<b>Friday</b>						
	Argentina	Economic activity monthly estimator	June	0% a/a		
	Colombia	Car Sales	July	13586		
	México	Employment and Occupation	2T09	NA	NA	NA

## Macroeconomic Indicators

	GDP (yoy)					Inflation		Unemployment		Industrial Prod.		Sales		Exports		Trade Balance	
	1Q09	4Q08	3Q08	2Q08	1Q08	yoy		(% active pop.)		yoy		yoy		yoy		mUSD	
Argentina	2,0	4,1	6,9	7,8	0,0	5,3	Jun	8,4	1 T09	0,6	Jun	13,5	Jun	-4,5	Jun	1528,0	Jun
Brazil	-1,8	1,3	6,8	6,2	6,1	4,8	Jun	8,1	Jun	-10,9	Jun	4,0	May	-30,8	Jul	2928,0	Jul
Chile	-2,1	0,2	4,6	4,6	3,4	0,3	Jul	10,7	Jun	-8,3	Jun	-6,6	Jun	-30,0	Jun	1027,5	Jun
Colombia	-0,6	-1,0	3,3	3,7	4,2	3,3	Jul	13,0	Jul	-6,5	May	-3,5	May	-18,8	Jun	417,0	May
Mexico	-8,2	-1,6	1,7	2,9	2,6	5,7	Jun	5,2	Jun	-11,6	May	-8,4	May	-26,6	Jun	-206,0	Jun
Peru	1,8	6,5	10,9	11,8	10,3	2,7	Jul	8,5	Jun	-7,6	May	n.d.	n.d.	-27,0	May	634,0	May
Venezuela	0,3	3,2	4,1	7,3	5,0	28,3	Jul	7,8	Jun	11,4	Mar	20,5	Mar	-55,5	Mar	-1442,0	Mar

Sources: Bloomberg, Reuter, and BBVA staff estimates.